BRIDGING DOMESTIC CONCERNS AND INTERNATIONAL MARKETS:

The Story of Large Garment Producers in Damascus, Syria

by

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Submitted to the Department of Urban Studies and Planning
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ABSTRACT

For a country that was closed till 1990, and regarded as a textbook case of a closed economy, it is surprising to find in Syria a rapidly increasing number of large garment producers, that are supplying multinational buyers from Europe, and are rapidly transforming the country's garment sector. The aim of this study is to understand (i) why and how Syria is increasingly becoming a production base for several multinational buyers and intermediaries and (ii) why and how large Syrian producers are the chief conduits of this contact between Syria and European export markets and (iii) why and how knowledge is diffused from the large producers to other small and medium firms in the garment industry.

Two main factors explain the rapid growth of in the number of firms producing for multinational buyers. First, the particular features of a core group of local firms that are attracting multinational buyers: (i) long years of experience (ii) large-scale (iii) ability to produce a variety of products. The state played an important historical role in shaping these features by (i) indirectly creating an industrial class (ii) promoting cotton and infrastructure (iii) allowing for links between outside buyers and local producers after liberalization. Second, the nature of information transferred from multinational buyers and intermediaries to local producers, and which varied according to the type of agreement a firm was involved in.

In turn, the large producers are transferring the information acquired from European buyers to other local firms in the industry under two main conditions. First, producers manufacturing under franchising agreements generally tended to depend more on local producers for the supply of raw materials. Second, the existing Alawi-Sunni struggle existing within the Syrian society intensified the transfer of information from large producers to other local firms. Many of the Sunnis who own the large firms saw in transferring information to other smaller producers an opportunity to gain the support of the small producers and to revive their role as an industrial elite in the Syrian society.

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To my mother and father......

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Chapter 1
Introduction

1.1 The Puzzle

Till 1990, Syria was regarded as a textbook case of a closed economy. It is surprising to find that less than a decade later, this once closed economy has become an important procurement base for large European buyers in the country's key sectors, such as garments. Some of the largest, most dynamic and successful Syrian garment producers are currently suppliers to multinational buyers from Europe.

Beginning in the early nineties when Syria began freeing its markets after thirty years of government control[1], the number of large[2] private garment manufacturers, producing goods for multinational buyers, either directly or through intermediaries, has been increasing (Table 1). Large private garment producers have been manufacturing under two main types of agreements. (i) Franchising agreements: where fashion-oriented apparel companies, such as Benetton and Naf Naf, sell to local producers the right to produce *and* sell a particular good, both in the local market and in export markets. (ii) Subcontracting agreements: where large department stores, such as C&A and JC Penny, contract to a local firm the production of a particular commodity[3], while the commodity is sold in department stores located in various countries, mostly in Europe.

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[1] For a detailed discussion of the liberalization process in Syria see: Guicherd, C. 1998. *The Politics of Economic Reform in a Populist-Authoritarian State: The Case of Syria*. Dissertation for the MA Area Studies. London: School of Oriental Studies.
[2] In this paper, I am using the term 'large' for firms that are employing more than 150 employees, 'medium' for firms employing between 50 and 150 employees, and small for firms employing less than 50 employees. The classifications are also based on the *1997 Statistical Abstract*. Chamber of Industry. January 1998.
[3] These definitions are based on the interviews that I had with multinational buyers and their local suppliers.

To ensure that the producers in Syria meet requirements of cost, quality and timely delivery, multinational buyers are transferring various types of information to local producers, thus enabling them to become more familiar with international markets and the task of production. In turn, several of the large garment producers have been diffusing this information to other firms in the garment industry.

Table 1

Firms Producing for Multinational Buyers							
	1985	1987	1989	1991	1993	1995	1997
No. of firms producing for Multinational Buyers	25	45	75	176	367	518	784
Total number of firms	5,388	6,338	7,456	8,771	10,086	11,598	13,337

Source: Based on estimations of Chamber of Industry, Damascus, Syria; 1998.

This paper examines 15 of the most successful large producers that are producing for multinational buyers, in order to understand (i) why and how Syria is increasingly becoming a production base for several multinational buyers and intermediaries (ii) why and how large Syrian producers are the chief conduits of this contact between Syria and European export markets (iii) why and how knowledge is diffused from the large producers to other small and medium firms in the garment industry. Table 3 gives a summary of the main features of the large garment manufacturers that this case examines.

1.2 The Argument

Multinational buyers, such as fashion oriented apparel companies and large department stores, who are procuring garments from large firms in Damascus belong to the category of buyers that the literature refers to as global commodity chains (Gereffi 1996). These multinational buyers are part of a new breed of 'manufacturers without factories' that separate the physical production of goods from the design and marketing stages of the production process. Multinational buyers typically produce their goods at various firms located in industrializing countries. The process of production by the various firms located in industrializing countries is referred to in the literature as Original Equipment Manufacturing (OEM), whereby contractors make goods to be sold under the Multinational buyer's brand name (Gereffi, 1996).

The dominance of firms located in newly industrialized countries, such as Hong Kong, South Korea, Taiwan & Singapore, in the production of labor intensive consumer goods such as apparel and shoes, has been diminishing due to rising wages rates. Consequently, multinational buyers are seeking to produce their goods at firms in other locations in industrializing countries, such as the Caribbean, South East Asia, and the Mediterranean region, primarily Egypt, Syria Tunisia and Turkey (Harrison 1994, Egan & Mody 1992).

The literature on globalization and the international division of labor often attributes the choice of multinational buyers to produce goods in certain countries and not others to the existence in these countries of three standard features: (i) low wages, (ii) geographic proximity, and (iii) free markets (Rhee 1990). For example, Egypt, Syria, Tunisia and Turkey have low wages compared to countries in the newly industrializing countries, as seen in the table below.

Table 2

Labor Costs ($/hr,1993)												
Japan	Italy	US	Taiwan	Turkey	Tunisia	Philippine	Syria	Egypt	India	China	Pakistan	Indonesia
24	17.5	12.5	6	4.5	3	1.8	1.2	0.5	0.5	0.25	0.25	0.23

Source: United Nations Statistical Report, 1993

Countries in the Mediterranean region are also geographically more proximate to multinational buyers located in Europe than are firms in the newly industrializing countries, such as Hong Kong, South Korea, Taiwan & Singapore. Geographic proximity is an important factor in establishing relationships between multinational buyers or intermediaries and firms located in various countries, given the importance of timely delivery, particularly in the case of subcontracting where products are sold in department stores located in Europe. The products will generally take a shorter period of time to be delivered from the firms located in the Mediterranean region to the buyers in Europe. Moreover, Syria, among other countries in the Mediterranean region, has recently entered into negotiations with the European Union to gradually abolish trade barriers by 2010. As a result of these negotiations restrictions such as tariffs and quotas will be lifted on industrial products exported between the countries which are signatory to the free trade agreement.

However, there are three main limitations of attributing the choice of some multinational buyers to produce their goods at firms located in one particular country and not another, to factors such as low wages, geographic proximity and free markets. First, these factors do not explain why certain multinational buyers chose to produce at a particular firm or region and not another firm or region located *within the same country*. Second, these factors are not useful in explaining the nature of information that is transferred by multinational buyers to local producers and how it is transferred. Third, these factors are not useful in explaining the extent to which the information transferred from multinational buyers to local suppliers gets diffused to other firms in the local industry.

To explain the rapid growth of large Syrian firms producing for multinational buyers and the diffusion of knowledge from the large firms to other local garment producers, I am going beyond these standard explanations of the choice of multinational buyers to produce at firms located in a particular country. Rather, I am using the global commodity chains literature, and the factors inherent in the functioning of global commodity chains, *within the specific context of Syria,* to explain the rapid growth of large firms and the diffusion of knowledge to other smaller firms. Such factors include (i) the type of agreement that a firm is involved in, whether franchising or subcontracting, (ii) the structure of production network, and (iii) the learning process that takes place through these networks.

I will argue in this paper that there are two main factors that explain the rapid growth in the number of large firms producing for Multinational buyers, either directly or through intermediaries. First, a core group of firms in Syria had particular features which attracted multinational buyers. These features are (i) long years of experience (ii) large scale and (iii) ability to produce a variety of products, as demonstrated by the wide range of products that each of the core firms was producing in the beginning of the 1990s. The state played an important historical role in creating these features by (i) indirectly creating an industrial class (ii) promoting cotton and infrastructure (iii) allowing links between outside buyers and local firms after liberalization.

The second factor that explains the rapid growth in the number of firms producing for multinational buyers is nature of the information transferred from multinational buyers and intermediaries to large producers. Multinational buyers and intermediaries developed the existing skills of large producers by exposing the large producers to international standards and teaching them how to meet these standards. However, there were variations between the nature of information transferred under franchising agreements and that transferred under subcontracting agreements, which had a significant impact on the kind of learning that occurred. The former included more information on marketing while the latter included higher quality standards. In turn several of the large producers used the information acquired to upgrade their own line of production.

I will also argue that two factors explain the diffusion of information from large garment producers to small and medium firms in the industry. First, the type of agreement that a firm was involved in. In particular firms producing under franchising agreements, where quality standards were lower than under subcontracting agreements, tended to depend more on local suppliers than firms, which are producing under subcontracting agreements. Second, the Alawi-Sunni ethnic struggle existing within the Syrian society had direct implications for the extent to which large firms diffused the knowledge that they acquired to other local producers. Owners of most of the large firms producing for multinational buyers belong to the Sunni sect that is struggling to strengthen its power within Syria, which is ruled by the Alawi minority. As a result, several of the large garment manufacturers spent an extra amount of time and resources to transfer information, such as new techniques in cutting, dyeing, and machine maintenance, to other firms in the garment industry in exchange for political support during election campaigns.

In short, I am arguing in this paper that the success of a particular country to exploit the 'liberalization' of its economy by, for example, turning itself into a base for global commodity chains depends on how factors inherent in global commodity chains, such as the type of agreement, whether franchising or subcontracting, the structure of the production network, and the learning process that takes place through these networks play out under country specific conditions.

1.3 Methodology

The information provided in this paper is based on interviews that I conducted in August 1998 and January 1999 in Damascus, Syria. During these two months I interviewed (i) 8 representatives of multinational buyers: Naf Naf, Kickers, C&A, Adidas, Benetton, Lord Jeans, Puma & Lois Jeans (ii) 20 garment manufacturers producing for multinational buyers (iii) 10 firms that supply the garment manufacturers with their raw materials (iv) various officials in the Chamber of Industry, the Ministry of Industry and the Ministry of Economy. Table 3 gives a summary of the firms that I interviewed.

To locate firms producing for multinational buyers, I relied on two main sources[4]: (i) the head of the Chamber of Industry, who identified these suppliers based on his experience in the garment industry (ii) the suppliers themselves who guided me to other suppliers.

I started out by looking for garment producing clusters but a key finding of my research was the in the Syrian case larger firms (a minimum of 150 employees) played a

[4] During my fieldwork, I wasn't able to get an accurate listing of the firms producing for multinational buyers. In fact, during my interviews with government officials, I was told that such a list does not exist.

key transformative role in bringing about dynamism in the garment sector. The large firms were the key links for multinational buyers. As the case will show, they were attractive to multinational buyers because they provided experience, an ability to manage problems, and large volumes of a consistent quality.

The study does not attempt to evaluate the success of the activities conducted in each firm, nor to identify the individual firm's main achievements. Rather, I focus on some of the outcomes of their activities and the lessons that they teach us about, state policies, relationships between multinational buyers and local producers and improving local production capacities.

1.4 Paper Structure

This paper is structured as follows. In this chapter, I have introduced the case-study and the main features of the firms that I would be looking at. I have also explained the reasons behind looking at this case, the main arguments in this paper and the methodology behind my research.

In the second chapter, I explain how the state's policies for promoting agriculture, limiting the size of private firms, and 'liberalizing' the economy, have enabled some firms to have the features introduced above: long years of experience in the industry, large scale, and ability to produce a variety of products.

In the third chapter, I explain how these features, combined with the type of agreement that a firm is involved in, whether franchising or subcontracting or both, determined the nature of information that is transferred from multinational buyers to their suppliers, and how that information was transferred. In turn, the type of agreements that a firms was involved in determined the nature of information transferred from large producers to other small and medium producers in the garment industry. I also show how the Sunni/Alawi ethnic struggle that exists in the Syrian society had direct implications on the extent to which large producers transferred the information that they acquired to other local producers. I will conclude with the main lessons that come out of this case in the last chapter.

Chapter 2

State's Policies (1963-1990): Creating Conditions for the Growth of Private Sector Firms

2.1 Introduction

The purpose of this chapter is to illustrate that the first factor that explains the rapid growth in the number of large firms producing for multinational buyers, either directly or through intermediaries, is that a core group of firms possessed particular features, which in turn attracted multinational buyers. These features are (i) long years of (ii) large scale and (iii) ability to produce a variety of products.

Throughout the next sections, I will explain how the state played an important historical role in creating these features. In particular, three main policies initiated by the ruling Baath Socialist Party, between 1963 and 1990, led to the gradual emergence of medium to large firms, having long years of experience in the garment industry and producing a wide range of products. First, by promoting agriculture beginning in 1963, the state (i) improved public goods such as infrastructure and communication services, which benefited various sectors of the industry (ii) provided cotton as a raw material for the local garment industry (iii) led to the inability of public garment firms established by the state in 1963, to fulfill the demands of the local and the export market. To fulfill these demands, private garment manufacturers were gradually increasing in number throughout the period of 1963-1990. Second, the state's policies limited the size of private garment manufacturers to a maximum of 50 employees. As a result of this policy, and in order to expand their production activities, some entrepreneurs diversified their production units by establishing a separate firm, employing less than 50 employees and that produced a different type of garment. Third, starting with the early nineties, the state lifted the initial restrictions on the size of private firms, as part of its liberalization measures. Consequently, several of the entrepreneurs combined the individual firms that they had established, prior to the early nineties, into one larger firm.

Before dwelling on the state policies that I introduced above and their implications on the local industry, I will briefly shed light on the Alawi-Sunni ethnic conflict that exists in the Syrian society[5]. While dwelling on the ethnic conflict is beyond the scope of this paper, it is important to highlight this conflict, since it shaped the state's policies introduced above. In particular, the policies of the Baath Socialist Party to promote agriculture were a show of support from the Party to the rural peasants, traditionally belonging to the Alawi[6] sect. On the other hand, the Party's policies to limit the size of private firms were necessary to control the intense urban opposition of the industrialists, belonging to the Sunni[7] sect.

2.2 The Alawi-Sunni Ethnic Conflict: Shaping the State's Policies

Members of the Sunni sect, referred to in the literature as Sunni bourgeoisie (Lawson 1994), have been gradually rising to economic and political power throughout the period of the Ottoman rule (1520-1920) and French colonial rule (1920-1946) over Syria[8]. After Syria gained its independence from the French colonial rule in 1946, the Sunni bourgeoisie dominated the political and economic institutions. For example, in the

[5] For a more detailed discussion of this conflict see: Van Dam, N.1996. *The Struggle for Power in Syria*. I. B. Tauris & Co. Ltd. London.
[6] The Alawites constitute 11.5% of the population.
[7] Sunni Muslims constitute 57.4% of the population.

textile and garment sector, between the period of 1946-60, Sunni industrial bourgeoisie established 12 main companies, employing between 1,000 and 3,000 workers for the spinning and weaving of cotton, in addition to other textile firms which were of a smaller scale. Other industries established by Sunnis in Syria's post-independence period, included, firms for assembling such durable goods as refrigerators and washing machines, processing food, generating water and electricity, and producing agricultural tools, liquid gases, synthetic fibers, and building materials. Moreover, the Sunni landowning bourgeoisie controlled agricultural land throughout Syria. In 1955, for example, small peasant ownership amounted to little more than about 15% of the land while more than one-half of the peasantry worked on the big estate (Shakra 1965). Up to the early sixties, big landowners, some three thousand notable families constituting less than 1% of the population, owned half of all the land (Hinnebusch 1993).

Despite the economic expansion that Syria witnessed during its post-independence period, industrial and agrarian capital was highly concentrated in the hands of families belonging to the Sunni bourgeoisie and provided few jobs to the outsiders, particularly minority ethnic groups such as Alawites, Christians and Druze[9]. By the fifties, a growing conflict of ethnic character was separating the upper Sunni bourgeoisie class, and middle and lower classes composed mainly of the other ethnic minorities. The increasing ethnic conflict between the Sunnis and the different minority groups, was a main reason, behind the gradual rise to power of the Baath Socialist Party, which was primarily composed of ethnic minorities. Eventually, in 1963, an Alawi dominated

[8] For a detailed discussion of this period see: Hourani, A. 1946. *Syria and Lebanon*. Oxford University Press.

[9] Druze constitute 3% of the population while Christians constitute 4.7%.

branch of the Baath party, organized a military coup which overthrew the existing government[10].

In order to decrease the power of the Sunni bourgeoisie, who had been controlling industrial firms and rural agricultural land, the new regime launched during the mid-sixties, two main measures, nationalization of the major industrial firms, and land reform of rural agricultural land.

Nationalization Measures

Through the nationalization measures, the new regime primarily targeted companies that it considered large, those employing more than 150 employees. Among the firms nationalized were around 60 commercial enterprises, and more than 130 industrial establishments, including 22 companies for garments and textiles, all cotton-ginning mills, and all companies for the spinning and weaving of cotton (Perthes 1991).

As Table 4 below shows, the number of industrial bourgeoisie dropped considerably as a result of these nationalizations. The state allowed entrepreneurs to remain as managers even after their firms were nationalized, but many of them left their business or emigrated mainly to other Arab countries (Melhem 1997).

The state confined private firms to small (less than 50 workers) and artisan-processing industries, which demanded low investment sums, mainly textile, garments, leather, woodworking, furniture, food processing, metallurgy, plastic products, cosmetics and detergents, cement bricks, assembling motorcycles and bicycles and chassis for minibuses and lorries.

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[10] For a more detailed discussion of the military coup in 1963, see Van Dam, N. 1979. *The Struggle For Power in Syria*. New York: St. Martin's Press.

According to the new regime, the public sector would run all basic industries as well as certain large light industrial establishments. For example, the public sector exclusively controlled the activities of cotton ginning and the spinning of yarns (cotton, wool and synthetic). It also exclusively controlled the production of sugar, tomato paste, cotton seed oil, mineral water, beer, cement, ceramics and porcelain, glass, electric lamps, paper, pens, petrochemicals and natural gas, shoes, mechanical dying, matches, steel, aluminum, cables, tractors, transportation vehicles, communication equipment, electric transformers, carpets and tobacco (Lawson, 1994).

Table 4

Assessment of the Syrian Society in 1960 and 1970				
	1960	%	**1970**	%
Indus & comm. Bourgeoisie	19,750	2.2	10,890	0.7
Rural bourgeoisie	39,640	4.5	8,360	0.6
Working class	159,720	18	257,380	17.6
Agricultural proletariat	182,720	21	130,400	8.9
Traditional petty bourgeoisie:				
Productive	51,300	5.8	103,350	7
Non-productive	59,600	6.7	112,740	7.7
Salaried intermediate strata	132,530	15	234,930	16
Small peasantry	243,460	27	608,540	
Total	888,720	100	1,466,590	100

Source: Middle East Research and Information Project, May 1979

Land reform measures

As for land reform, the state took over agricultural land from the landowning bourgeoisie and redistributed it to the landless peasants, declaring that the land is transformed to 'the one who works it'. The Baath Socialist Party put forward several laws forbidding the expulsion of tenants, limiting agrarian property and distributing state domains to peasants (Hinnebusch 1990). Furthermore, the state recruited leaders from the small land-owning peasantry and backed their creation of peasant unions. The unions were controlled by the state and allowed the state a grip over the rural areas by channeling the support of the rural peasants through the unions.

In short, the state's policies for promoting agriculture, in order to gain popular support from the rural Alawi peasants, while limiting the activities of private industries, to control the power of the Sunni entrepreneurs, were a reflection of the Alawi-Sunni conflict that exists in the Syrian society. In the section that follows I will discuss how the state's policies for developing agriculture worked to the advantage of private garment manufacturers in three main ways, as introduced earlier. First, infrastructure and communication services were developed, second, cotton as a raw material became increasingly available, third, public firms gradually became unable to meet the demand of the local and export market, creating an opportunity for private garment manufacturers to meet these demands.

2.3 Developing Agriculture: Emerging Opportunities for Private Garment Manufacturers

Improving infrastructure and communication services

The main aim of developing infrastructure and communication services, according to government officials[11], was to tie agricultural areas of the country with the urban areas. Consequently, starting in the early seventies, the state invested heavily in the provision of infrastructure, such as roads, highways, water and electricity, in addition to communication services such as fax telephone and fax, as Table 5 shows.

[11] The Head of the Planning Department at the Ministry of Industry provided me with this information.

Table 5

Government Expenditures, 1984-1992					
In millions of Syrian pounds					
	1984	1986	1988	1990	1992
Wages and salaries	17,400	18,932	21,126	32,300	37,442
Administrative expenses	1,406	1,537	2,134	3,392	4,972
Transfers	556	429	683	1,349	4,022
Debt repayment	1,920	1,643	3,877	2,968	
Agriculture, forestry, and fisheries	135	167	289	424	695
Extractive industries	9	10	13	23	34
Manufacturing industries	39	45	63	110	183
Electricity, gas and water	**3**	**3**	**5**	**9**	**20**
Building construction	22	23	32	42	71
Trade	34	31	44	66	117
Transport & communication	**102**	**117**	**141**	**162**	**221**
Unclassified	1,567	1,400	900	900	1,000

Source: Ministry of Finance and staff estimates

The provision of generalized infrastructure and communication services simultaneously facilitated the functioning of the various sectors in the economy, including the artisan-processing activities that private firms were confined to. For example, improved roads and highways meant that entrepreneurs would spend less time in getting raw materials and in delivering an order of goods to their local clients. Improved communication services meant that a client could more easily and frequently call an entrepreneur to make an order of goods.

Promoting the growth of cotton

In promoting agriculture, the state encouraged the growth of the main agricultural cash crops in Syria, primarily cotton, in addition to other crops such as wheat, barely, and sugar beets. For example, the state encouraged farmers to adhere to the desired cropping pattern and crop rotation through the allocation of inputs, which are distributed by the Agricultural Cooperative Bank (ACB). Also, during the second half of the 1980s, the government supported the agricultural sector via substantial increases in procurement prices for major crops, while allowing prices of fruits and vegetables, and livestock to be market determined, and provided credits through the ACB. The agricultural sector enjoyed other advantages such as income and tax exemptions and the opportunity to retain all export proceeds. These policies have led to an increase in volume and diversification of production of agricultural crops (Van Dam 1979). In particular, the production of wheat and cotton has almost doubled, from 3,83,687 tons in 1970 to 600,100 tons in 1995, as Table 6 shows.

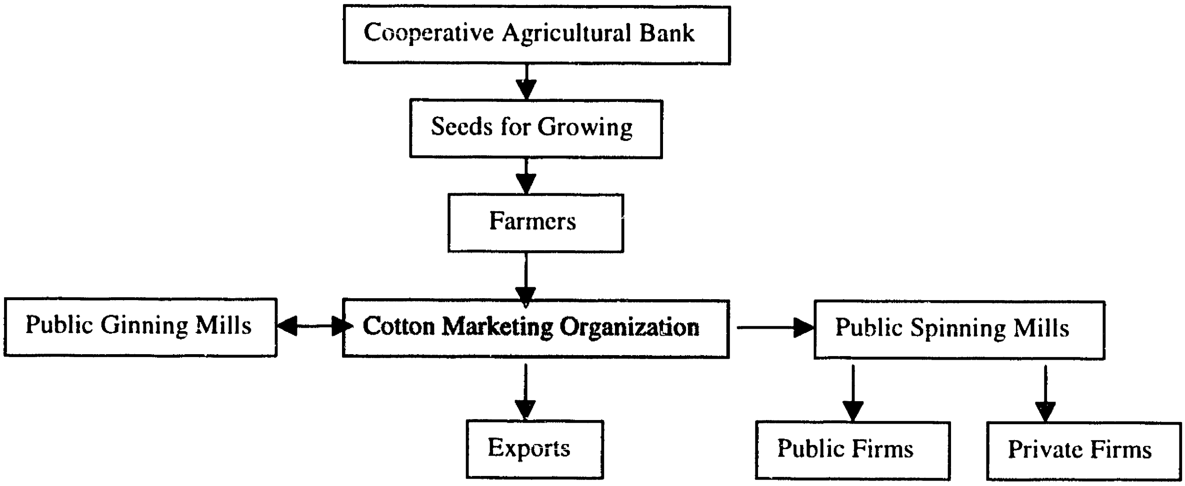
Table 6

Production of Seed Cotton In Syria (1970-1995)							
Year	1970	1975	1980	1985	1990	1995	1997
Tons	383,687	405,795	322,898	486,856	441,171	600,100	1,047,280

Source: Central Bureau of Statistics and staff estimates

The state has also played a key role in the marketing of cotton since the early seventies. The marketing of cotton has been the responsibility of the Cotton Marketing Organization (CMO) since 1965, when this activity was nationalized. Currently, only the CMO has the authority of buying cottonseeds from producers. It then sells the cottonseeds to public factories, which have the exclusive right to gin the cottonseeds into lint, cotton. CMO also has the authority to export the produced lint cotton or to sell it to public factories, which have the exclusive right to spin lint cotton into yarns. In turn, the public factories then sell the cotton to other public and private firms to be woven and knitted into textiles and garments[12].

[12] Evaluation of agricultural policies in the Syrian Arab Republic. Economic and Social Commission of Western Asia United Nations. 1995.



Marketing Channel for Cotton

Diminishing the ability of public sector garment firms to meet the demands of local and export market

Throughout the eighties, the inefficiencies that public firms suffered from combined with an increasing demands for goods, such as textile, tobacco and cosmetics, from the local and export market, particularly the Soviet Union, offered an opportunity for private firms to meet these demands.

Beginning in the early eighties, public garment sector firms, similar to several other firms in the public sector[13], started experiencing difficulties in meeting the growing demands of both the local and the export market[14]. Two main reasons were behind the public firms' inefficiencies. (i) The government's expenditures towards the industrial sector were 'low' as a result of the government's bias towards agriculture. (ii) Public sector firms suffered from problems of excessive political patronage.

[13] I should note here that, to capture the reality better, we should make distinctions in that not all public sector firms uniformly suffered from the same problems. However, this point merits further research.
[14] The information in this section is based on my interviews, in August 1998, with the Chief Assistant of the Minister of Industry, the Chief Assistant of the Minister of Economy and the Head of the Chamber of Industry in Damascus, Syria.

Table 4 shows that the government's expenditures throughout the seventies and eighties on agriculture, forestry, and fisheries were on average four times higher that the government's expenditures toward the manufacturing industries. The governments' expenditures towards agriculture, forestry and fisheries was also two times higher that the average of the total government expenditures on all the other industries (extractives industries, manufacturing industries, electricity, gas and water, building construction, trade, and transport and communication).

The public sector suffered from several shortcomings as a result of insufficiency of the government's expenditure towards the public sector. For example, managers of public garment firms complained of low wages[15]. Low wages meant a lack of experienced managers and technical staff. Workers were often negligent, unmotivated and unwilling to cooperate with managers in solving problems. Managers also complained that the public firms operated on obsolete, under-maintained equipment that often breaks down.

In addition, public sector establishments have been plagued by problems of excessive politicization. Public sector establishments frequently suffered from raids on their property, personnel and positions by officials in the government, who used public sector firms to provide political sinecures for members of their family. For example, one employee, Ali, was the head of the Sewing Department in the United Industrial Sector for five years. In 1985, he received a phone call from the manager of the firm informing Ali, that his job had been terminated and that he is to be replaced by the manager's nephew.

[15] This information is based in my interview with the General Manager of the United Industrial Company for Silk Weaving.

As a result of this incident, Ali left the public sector, bought two sewing machines and opened his own firm, for making ladies' skirts, and which employed five employees.

Similar to Ali, many public sector employees left their jobs and opened their own firms, after receiving their basic skills in a public-sector company. Although benefits such as social security registration and medical care for workers, were for the most part fewer, wages in the private sector, for skilled labor in particular, were considerably higher in the private sector than they were in the public sector. For example, one retired owner of a firm for dye works told me "We helped ourselves from the state". In the mid-eighties he employed about twenty-five workers, ten of them, including all his technical workers, also held jobs in the public sector garment industry and were moonlighting in his establishment.

The growing demands of the export market, mainly the Soviet Union, offered private industrialists a lucrative opportunity to open their own firms. Since 1973 till mid 1998, Syrian payments on its military and civil debt to the Soviet Union had to be made partly in goods. In practice, payments were almost entirely made in goods and no cash payments were made (Perthes, 1992). The USSR and on a smaller scale, Iran, bought large quantities with relatively low quality standards, from the Syrian market and the cost of these purchases would then be subtracted from Syria's debt.

Over the years, more and more private manufacturers lined up for Soviet orders (Table 7). Officials in Damascus moved to subsidize commercial exchange between Syria and the Soviet Union by granting greater access to the state's limited hard currency reserves to local companies that supplied manufactured goods to the Soviet Union (Perthes 1992).

Table 7

Syrian Private Industrial Sector, 1970-84				
Industrial Branch	1970		1984	
	No. of Firms	No. of Empl	No. of Firms	No. of Empl
Foodstuffs, beverages, tobacco	5,200	21,500	7,000	34,200
Textile, clothes, leather	7,800	26,400	15,400	29,400
Wood & furniture	5,300	10,200	10,700	23,000
Paper & printing	300	1,200	600	2,700
Chemical	400	2,200	1,900	6,100
Nonmetallic products	800	3,700	6,400	17,600
Metallic products	4,100	9,500	12,600	26,500
Others	3,700	9,100	1,500	2,600
Totals	27,600	83,800	56,100	142,100

Source: Ministry of Economy, Syria

The increase in the share of private firms in satisfying the export market, composed primarily of Socialist block countries and Iran, is illustrated in Table 8, from 11,642 tons in 1982 (11% of total exports) to 25,732 in 1990 (21% of total exports).

Table 8

Exports of Public and Private Sectors in Textile, Wearing Apparel and Leather Industries									
(Quantity in Tons & Value in SP 000)									
		1982	1985	1986	1988	1990	1992	1994	1996
Private	Quant	11,642	5,038	9,549	10,956	25,732	28,669	45,490	51,377
	Value	417,511	195,911	657,808	2,820,601	9,419,902	2,411,127	6,084,395	3,463,509
Public	Quant	88,825	124,895	134,840	60,197	100,408	151,255	30,215	15,668
	Value	555,730	886,151	984,187	1,357,219	2,351,675	2,114,058	175,313	102,235

Source: Ministry of Foreign Trade, Statistical Abstract

In the beginning of this chapter, I stated that these are three policies initiated by the state between 1963 and 1990 and that that eventually led to the emergence in the early 1990s of medium to large firms, having long years of experience in the garment industry and producing a wide range of products. In this section I explained how the policies of the government for promoting agriculture allowed private firms access to (i) improved infrastructure and communication services (ii) cotton as a raw material (ii) export market through the barter agreements with the Soviet Union. In the next section, I will explain how the state's policy for limiting the size of private firms to 50 employees led several of the private firms to expand their production by multiplying their production units rather than expanding the same unit.

2.4 Size limitation: Implications on Private Firms' Growth

In the previous section, I illustrated how, throughout the eighties, the number of private garment firms was increasing mainly as a result of the inability of public firms to meet the demands of the Soviet market. However, the new regime after gaining power over Syria in 1963, had limited the activities of the private sector to small firms employing less than 50 workers, in order to control the capital accumulation opportunities of the Sunni industrialists and their potential access to power (Lawson 1994).

Several private firms were increasingly delivering orders to the Soviet Union and had the ability to expand their business and employ more than 50 employees in order to take more orders from the Soviet Union. Nevertheless, they preferred not to expand their firms for fear of potential nationalization. Instead, private manufacturers followed an alternative pattern of growth. If an entrepreneur wanted to expand his production capacity, he would start-up another factory, usually producing another type of product, and which also employed less than 50 workers. For example, owners of firm C (Table 3) were three brothers. During the seventies, they had jointly started a firm for the production of men's shirts and which employed around seven workers. Gradually, the firm grew and by the early eighties, the three brothers were employing about 45 workers. In the beginning of the eighties, they started exporting to the Soviet Union. By mid-eighties the brothers wanted to expand their production activities. However, fearing potential nationalization, the brothers could not increase the number of their workers within their own factory. They decided that each of two brothers would open his own factory employing around 50 workers. One factory was for the production of women's shirts and the other was for the production of sweatshirts. The other firms that I interviewed and that are listed in Table 3, had a similar pattern of growth.

In the next section, I will discuss how the liberalization measures discussed in the section below, and which encouraged private sector investment through lifting the initial restrictions on the size of private firms, allowed many private firms to combine their factories in one larger one.

2.5 Liberalizing the Economy: Emergence of Large Garment Manufacturers

In 1990, the Syrian government became under pressure to reform the economy. These pressures were due to the inability of the public sector to service the government's immense foreign debt, the cessation of significant aid from the Soviet Union and the collapse in trade with Socialist bloc countries. More importantly, Syria became under pressure from the European Union. The Mediterranean Basin initiative of the European Union (EU) was launched at Barcelona in 1995, and had as its objective a free trade area in the Mediterranean Region by 2010. Following the launching of this initiative, a number of meetings were held between the EU and Syrian representatives in the first half of 1996. In 1997, Syria formally agreed to apply for an Association Agreement, and the first negotiations at the vice-ministerial level were held in Brussels in 1998. It is estimated that the negotiations will take one or two years, after which Syria would gradually become part of the free trade area in the Mediterranean Region.

As a result of these various pressures to reform the economy, the government took several measures to promote private sector investment and, more importantly, to lift the previous restrictions on the size of private firms. For example, in 1991 the government adopted law no.10, which was a turning point in the process of economic reform, as it introduced a substantial set of incentives for private sector investment in agriculture, industry and transportation sectors. The law promotes exports by freeing private projects, which meet this objective, from existing restrictions on the import of raw materials. In particular, imports of capital goods under this law are exempt from custom duties and companies enjoy an income tax exemption for 7 years and individuals for 5 years; the tax exemptions can be extended for two years if at least 50 percent of output is exported (Sukkar, 1997).

Private entrepreneurs saw in this law an opportunity. They now could combine the different individual firms that they had established previously, without fearing that their firms would be nationalized as a result of having a large number of workers. Many of the entrepreneurs bought large pieces of land in the outskirts of Damascus, where they built the new large factories. They moved the workers and the machines, which were located in the various individual firms, to these new production sites. The new factories now housed the production of the different goods. For example, the three brothers, owners of firm C, in the previous example, bought a piece of land, in *Jdeideh*, one of the outskirts of Damascus, and built a new factory. The brothers closed down the three smaller factories and sublet each of the smaller factories to different manufacturers. They moved the employees and the machinery to the new factory, which employed about 200 workers and produced a variety of goods, including men's shirts, women's shirts and sweatshirts.

Thus, with the beginning of the early nineties, a group of firms, characterized by a long experience in the garment industry, large scale (more than 150 workers), and producing a variety of products began to emerge in Damascus. These are the main firms, which are currently producing for multinational buyers and Intermediaries.

Conclusion

In this chapter I have explained that in order to understand the rapid growth in the number of firms producing for multinational buyers in the beginning of the nineties, we have to look back historically at how the firms have been growing prior to 1990. Throughout the period between 1963-1990, firms in the garment sector benefited from the spill-over effect of the state's policies in (i) promoting agriculture, which encouraged the growth of cotton and developed infrastructure (ii) in limiting the size of firms for 50 employees which pushed firms to follow an alternative pattern of expansion through multiplication of individual production units. (iii) in liberalizing the economy in 1990, which allowed many firms in the garment industry to combine their individual production units and establish contacts with multinational buyers. By the beginning of 1990, the firms that are currently producing for multinational buyers had long years of experience, large scale and an ability to produce a variety of products.

Chapter 3

Large Firms: Acquiring and Diffusing Knowledge

Introduction

In the first part of this chapter, I will illustrate that a second factor, which explains the rapid growth of firms producing for multinational buyers and intermediaries, was the nature of the information transferred from multinational buyers and intermediaries to large producers. In general, multinational buyers and intermediaries developed the existing capacities of large producers by exposing the large producers to international standards and teaching them how to meet these standards. However, there were variations between the nature of information transferred under franchising agreements and that transferred under subcontracting agreements. The former included more information on marketing and the latter included higher quality standards. In turn several of the large producers used the information acquired to upgrade their own line of production.

In the second, shorter, part of the chapter I will illustrate that there are two factors which explain the diffusion of knowledge from large firms to other local producers. (i) The type of agreement that a firm was involved in. In particular firms producing under franchising agreements tend to depend more on local suppliers than firms, which are producing under subcontracting agreements. (ii) The Alawi-Sunni struggle, which intensified the extent to which large firms diffused the knowledge that, they acquired to other local producers. Large Sunni manufacturers transferred they acquired from multinational buyers to local producers in exchange for political support during election campaigns.

Part I: Acquiring Knowledge from Multinational Buyers and Intermediaries

Before discussing in greater detail the knowledge that was transferred from multinational buyers to large producers, I will first explain how the relationship between multinational buyers and large producers was established. Intermediaries played an important, and often transitory, role in establishing relationships between multinational buyers and large producers in Syria. After a few years of producing for multinational buyers through an intermediary, many large producers began manufacturing directly to the multinational buyer without going through an intermediary. Based on their experience with intermediaries they discovered that direct relationships with multinational buyers are more stable that relationships established through an intermediary.

3.1 The Role of Intermediaries

Intermediaries played an important role in linking-up multinational buyers and Syrian producers in 12 out of the 15 firms that I interviewed. In the12 firms where intermediaries played an important role, 10 firms relied on Cypriot intermediaries, while 6 relied on other intermediaries, mainly Syrians living abroad. Out of the 15 firms that I interviewed, seven said that they had direct relationships with the multinational buyers[16].

[16] As can be seen from Table 9, most of the firms that I am looking at were producing for more than one multinational buyer. As a consequence, the same entrepreneur can be producing for one multinational buyer through an intermediary while producing for another directly without relying on an intermediary.

Table 9

Buyer-Seller links in Syria		
No intermediaries	Cypriot Intermediaries	Other Intermediaries
Firm A	Firm B	Firm C
Firm E	Firm F	Firm D
Firm H	Firm E	Firm G
Firm I	Firm G	Firm I
Firm J	Firm I	Firm J
Firm M	Firm J	Firm K
Firm O	Firm K	
	Firm L	
	Firm M	
	Firm N	

Source: Interviews in Damascus Syria, January 1999

Several multinational buyers, particularly buyers located in Europe, had been producing at firms in Cyprus for approximately the last twenty years[17]. Beginning in the early nineties, and due to high inflation, Cyprus had been facing rising production costs (in terms of wages and raw materials). As a result of the rising production costs, several Multinational buyers have been gradually decreasing the production of goods at Cypriot firms. In response to the risk of losing their multinational buyers to less expensive sources of supply, many Cypriot buyers started acting as intermediaries for multinational buyers. Some of the Cypriot intermediaries had stopped completely their production activities, while others considerably decreased production. The Cypriot intermediaries sought new suppliers in Syria, in addition to other countries in the region, such as Egypt, Turkey and Tunisia.

In addition to relying on Cypriot intermediaries, six of the firms that I interviewed relied on other intermediaries (Table 9). Most of the intermediaries were Syrians wholesalers who imported goods to various countries in Europe, such as Spain, Italy and France.

[17] The information in this section is based on my interviews with local producers who rely on intermediaries.

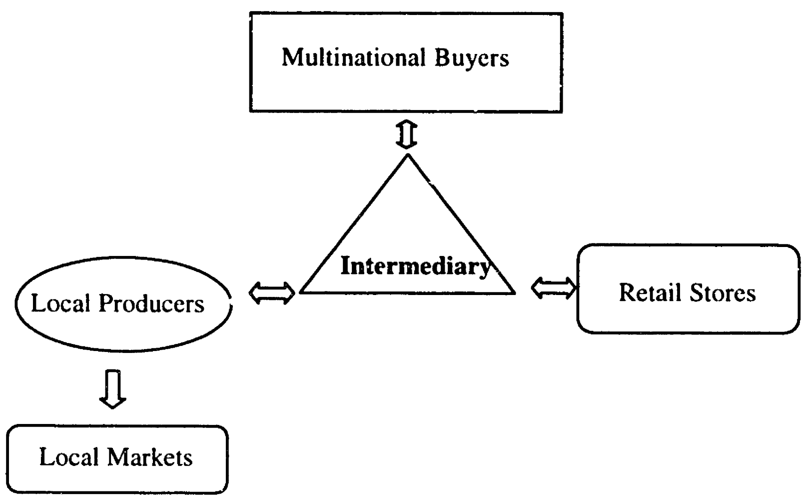
As summarized in Table 10, the different stages of the production process were distributed between multinational buyers, intermediaries and large producers. First, multinational buyers performed the product design. The buyer sent the design specifications to different intermediaries, who in turn delivered the specifications to several producers, located in different countries, including the large garment firms in Syria, by mail, fax, phone or through direct visits to the factory. Second, the large producers in Syria manufactured the products under technical supervision from the intermediaries, who ensured that local producers conformed to requirements of quality, cost and timely delivery, through frequent visits to the local firms. Third, in the case of subcontracting agreements, where the producers manufactured for large department stores located in Europe, the local producers delivered the goods to the intermediaries who in turn distributed the goods to different department stores in Europe.

Table 10

Distribution of functions between buyers, producers and intermediaries		
Function	Currently Performed By	
	Franchising Agreement	Subcontracting Agreement
Product design	Multinational buyers	Multinational buyers
Production	Local producers	Local producers
	(Supervised by	(Supervised by
	Intermediaries)	Intermediaries)
Delivery	Local producers deliver	Local producers deliver the
	Their products to	Products to the intermediary
	Intermediaries in the	To be distributed to various
	Cases to be exported to	Department stores
	Various locations	

Source: Interviews with local producers in Damascus, Syria. January 1999

In the case of franchising agreements, where local manufacturers had the right to produce and sell goods, two types of situations emerged. (i) If the local producer was manufacturing and selling goods for the local market, then the producer directly delivered his goods to the different local retail stores. (ii) If the local producer was exporting goods to retail stores located in different countries, then in many cases, the local producers relied on intermediaries who distributed the goods to retail stores located in different countries (Figure below). For example, Firm J was producing under a franchise agreement for Benneton, since 1992. The firm sold about 80% of its goods to the local market while about 20% was exported to different countries in the region mainly Iran, Iraq and Algiers. In order to distribute the goods to these countries, Firm E relied on a Cypriot intermediary, who based on his experience in the garment industry, had established contacts with various retailers in Iran, Iraq and Algiers.



Intermediaries in Franchising Agreements

For many multinational buyers, relying on intermediaries mainly saved on the time and cost involved in seeking new sources of supply[18]. Relying on intermediaries also saved the multinational buyers time and cost in ensuring that the local producers in various countries meet the standards of quality, cost and timely delivery. As seen in the figure above, in most cases, each multinational buyer dealt with one intermediary, who in turn had relationships with different sources of supply in various countries. For many local producers, relying on intermediaries, who usually had contacts with different buyers, would also cut down their costs and time of seeking different multinational buyers.

However, despite the benefits, in terms of saving time and cost in seeking different buyers, the relationship between several firms in Damascus and the intermediaries has proven to be unstable. For example, since 1991, the entrepreneur in Firm I was producing for Adidas through an intermediary company Vantex, located in Germany. However, in 1995, Vantex faced internal managerial problems and as a result started decreasing its orders from the entrepreneur. Several other firms faced similar problems through their relationships with intermediaries. As a result, several large producers have been cutting the role of the intermediary and dealing directly with the buyers. The entrepreneur in Firm I, who was producing for Adidas through the intermediary company Vantex, for instance, stopped dealing with Vantex and has been dealing directly with Adidas. He explained that Adidas is a huge and established company and is much more stable that Vantex. So he feels more secure if he deals directly with Adidas than if he deals with Adidas through an intermediary.

As seen in Table 9, seven of the firms that I interviewed had direct relationships with multinational buyers, without relying on an intermediary. Most of these producers established their relationships through intermediaries and after a few years started producing directly for multinational buyers. In these cases local producers and multinational buyers had a more direct relationship (Table 11).

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[18] Interviews with representatives of the multinational buyers, Benetton and Naf Naf.

Table 11

Distribution of functions between buyers and producers		
Function	Currently Performed By	
	Franchising Agreement	Subcontracting Agreement
Product design	Multinational buyers	Multinational buyers
Production	Local producers	Local producers
	(Supervised by	(Supervised by
	Buyers)	Buyers)
Delivery	Local producers export	Local producers deliver the
	Their products directly to	Products to multinational buyers
	Retail stores	To be distributed to various
		Department stores

The multinational buyers provided the local producers with the design of the product and sent representatives to the firm in Syria to supervise the production process and assist the local manufacturers in meeting requirements of quality, cost and timely delivery. In the case of subcontracting agreements, after the order is finished the local producers delivered it to the multinational buyers who, in turn distributed the goods to various department stores. In the case of franchising agreements the local producers either sell the goods to local markets or export the goods to retail stores in different countries.

In sum, intermediaries played an important role in linking large producers in Syria to Multinational buyers. In many cases, after a four to five years, entrepreneurs moved into having a direct relationship with multinational buyers without relying on an intermediary.

In the next section, I will explain how large garment producers acquired knowledge from Multinational buyers and intermediaries. The transfer of information primarily depended on the existing features of the large garment producers (their scale, ability to produce a variety of products and their years of experience in the industry). Information was transferred to local producers mainly through site-based training in two main ways. (i) One way was through site-based training where consultants sent by the Multinational buyers or the intermediary train workers in the firms in Damascus. (ii) Another way was through having the workers in the firms in Damascus train at firms in other countries that produce for the multinational buyers.

3.2 Multinational Buyers and Intermediaries: Building on Features of Local Firms

Having a large scale (more than 150 workers) and the ability to produce a variety of products facilitated the transfer of information from multinational buyers and intermediaries to local garment producers. During my interviews with multinational buyers and with intermediaries, they expressed their preference to deal with medium to large firms typically employing at least 100 workers[19]. A main reason for this preference is that it is cheaper and less time consuming to supervise the production activities of one large firm, which can deliver a variety of products, than it is to supervise 10 firms each producing small volumes of different products. Many buyers also asserted that from their experience, a concentrated supply base facilitated the ease of tractability and better guaranteed consistency in quality. An intermediary delivering products from firm G to C&A department stores clarified his preference for dealing with firms employing at least fifty workers. He was producing ladies' wear for C&A at three countries, Syria, Tunisia and Egypt. In Tunisia he was working with three firms, each employing about 35

[19] The information in this section is based in interviews with representatives from Adidas and C&A and the intermediary delivering products to Lord Jeans.

workers, one firm specialized in skirts, the other in blouses and the third in dresses. In Syria he was working with firm G, which employed around 200 workers and which produced a wide range of ladies wear including skirts, blouses and dresses. He compared his relationship in the two cases. For example, when he went to Tunisia, he had to visit the three factories and explain to each firm individually the design specifications. While when he came to Syria, the intermediary only visited firm G, which provided him with skirts, blouses and dresses in the quantity that the multinational buyer required.

The fact that the local producers had long years of experience in the garment industry also facilitated the transfer of information from multinational buyers and their intermediaries to local producers. Multinational buyers, or the intermediaries built on the already existing experience of the garment producers in Syria already have in order to assist the entrepreneurs to meet standards of quality, cost and timely delivery. For example, an intermediary based in France, and delivering goods for Naf Naf said that in seeking new sources of supply, the firms in Syria, Egypt and Tunisia that he usually deals with have at least ten years of experience. Based on his personal experience, having at least ten years of experience allows firms to acquire sufficient knowledge in the production process, which the intermediary could develop further.

(i) Site-based training

Several multinational buyers and intermediaries relied on site-based training to assist the local producers in meeting standards of price, quality and timely delivery. The trainer went to the production site and guided the producers through the production process while pointing out various problems and how they could be overcome. For example, during my visit to Firm I, one of the supervisors in the firm explained to me that ever since the company started producing for the multinational buyer, Adidas, in 1992, technical consultants sent by Adidas have been regularly visiting the factory. In the first two years they used to visit the factory every two months and after the first two years the frequency of the visits has been gradually decreasing. Currently, the technical consultants visit the factory approximately every six months. During these visits the consultants accompanied the supervisor on his daily tours in the firm and observed how the production process was taking place. They pointed out mistakes, in the cutting process for example, and advised the supervisor on ways in which to correct these mistakes. One of the ways frequently used by consultants to correct mistakes in Firm I is by having a special trainer give a short course on how to improve their cutting techniques.

(ii) Training in *other* firms

Another way through which employees in the Syrian firms I interviewed were trained was through sending many of their supervisors to other firms located in different countries and which were also producing for the multinational buyers. This method of training was more commonly used when the multinational buyer or the intermediary wanted the workers in the Syrian firms to be trained on new machines. In most cases, after the workers were trained on the new machines, the multinational buyer or intermediary recommended that the local producer purchase the new machine. For example, Firm M produced men and ladies wear for Eurodress Department stores in Europe since 1993. The entrepreneur in this firm explained to me that on average every three months he sent around ten different employees to train at firms producing for Eurodress mainly in Spain and Italy. Employees in the Mother Company Eurodress planed the visits of the Syrian employees to the other firms. In each of these visits the employees spent between ten to fourteen days at the European firm where they mainly took courses in the various stages of the production process. For example, in their latest visit, five employees were trained on a computer system (Lacra), which accurately drew cutting panels. In the cutting process, the panels are laid out on top of the fabric, which is cut according to the profile of the panels. After the training period, the Syrian entrepreneur installed the new computer system in his firm.

In short, having long years of experience, large scale and ability to produces a variety of products facilitated the transfer from multinational buyers and their intermediaries to local firms. The transfer of information was mainly in two ways, either through site-based training or through visits from the employees in the large garment producers to other firms producing for multinational buyers and their intermediaries in other countries.

In order to ensure that the local producers meet standards of quality, cost and timely delivery, multinational buyers and intermediaries were transferring various types of information to large producers in Syria, for example, information regarding new production techniques, such as cutting and sewing and information on how to coordinate the different phases of the production process. Such information was transferred to producers under both types of agreements, Franchising and Subcontracting. However, there are two main distinctions between the type of information transferred under franchising agreements and that transferred under subcontracting agreements. (i) In the case of Franchising agreements marketing information was a major part of the information transferred to local producers. (ii) In the case of Subcontracting agreements where the products were sold in retail stores primarily in Europe, the quality standards were higher than in the case of Franchising where products were primarily sold to the local market.

3.3 Type of Agreement: Implication on Nature of Information Transferred

As explained briefly in the paper and as illustrated in Table 3, the large firms that I interviewed were involved in two types of agreements with multinational buyers and intermediaries, Franchising and Subcontracting. Under franchising agreements, fashion-oriented apparel companies, such as Benetton and Naf Naf, sold to local producers the right to produce *and* sell a particular good, both in the local and the export market. Out of the 15 firms that I interviewed, 11 were producing under franchise agreements. Subcontracting refers to the situations where large department stores, such as C&A and JC Penny, contracted out to the large firms in Syria the production of a particular commodity, while the product was sold by the department stores, mostly located in Europe. Out of the 15 firms that I interviewed, 11 were producing under subcontracting agreements. As Table 2 shows, 7 out of the 15 firms that I interviewed were involved with both types of agreements[20].

[20]The information in this section is based on my interviews with multinational buyers, intermediaries and the large firms.

Franchising Agreements: Emphasizing Marketing Information

Based on my interviews with large firms producing for multinational buyers and intermediaries, a main difference between information transferred under franchise agreements and that transferred under subcontracting agreements was that in the former situation, information regarding marketing techniques constituted a major part of the information transferred. Although firms producing under Subcontracting agreements also acquired information regarding marketing techniques, such as labeling and packaging of goods, in the case of Franchising agreements, marketing information acquired a wider scope. It also included marketing techniques, such as shop display and advertising.

For example, Firm A produced under a franchising agreement for the fashion-oriented apparel store Naf Naf. In 1992, the manager of Firm A started producing for Naf Naf and selling the goods in the local markets. He sold his products to local retailers who set-up specialized retail stores, which exclusively sold Naf Naf products. When the manager of Firm A started producing and selling for Naf Naf, representatives of Naf Naf company explained to the manager that the company mainly targeted teenagers. The representatives stressed the importance of building a 'Naf Naf image' that would be appealing to the teenagers in Syria, mainly through shop display and advertisement. Naf Naf representatives supervised the interior design of the shops giving guidelines on how to make the design conform to the design of other Naf Naf stores worldwide. The representatives also provided the local producers with huge posters advertising Naf Naf stores to be posted on billboards throughout the city. Moreover, Naf Naf representatives urged the Firm A to advertise Naf Naf goods, on the television, radio and in various newspapers and magazines.

Subcontracting Agreements: Emphasizing Quality Standards

A second major difference between the type of information transferred through franchising agreements and that transferred through subcontracting agreements was that under Subcontracting agreements multinational buyers and intermediaries were more demanding in terms of quality standards that were the multinational buyers and intermediaries under Franchising agreements[21]. Goods produced under Subcontracting agreements were primarily sold in retail stores in Europe, and as a consequence had to conform strictly to European standards of quality. However, under franchising agreements most of the goods were sold to the local markets, and in some cases to countries in the region, mainly Iran and Iraq and Algiers. Since the goods produced under franchising agreements were not sold in European markets, multinational buyers or the intermediaries were less strict in inspecting the quality of the goods.

For example, Firm K produced under both types of agreements, franchising for 'Lucky Man' fashion oriented apparel stores and subcontracting for Mary's department stores. The manufacturer explained that when producing under subcontracting agreement multinational buyers insisted on having consistent quality in the goods produced. For instance if the department store orders 50 blouses of the same color and the same style, they wouldn't accept variations, such as having one blouse longer than the other, or one blouse having a slightly faded color. In cases were such variations existed, the buyers would make the manufacturer repeat the order until he produced 50 shirts of *exactly* the same quality and *exactly* the same style. However, when producing under franchising agreements, representatives of the company 'Luck Man', usually did not make the

[21] The information provided in this section is based on my interviews with Firms C, D, F, G, I. N and O.

manufacturer repeat an order if there were variations in color or style. The representatives pointed out the variations and how they could be overcome in future orders.

In short multinational buyers and intermediaries transferred various type of information to large producers in order to ensure that large producers meet standards of cost quality and timely delivery. However, there were two main distinctions between the information transferred under franchising and subcontracting agreements. The information transferred under franchising agreements included marketing information such as shop display and advertisement. However, under subcontracting agreements multinational buyers and the intermediaries were more demanding in terms of quality standards.

In turn, as I will explain in the next section, many entrepreneurs used the knowledge that they acquired on how to meet international standards through their relationships with multinational buyers and intermediaries to upgrade their own line of production.

3.4 Large Producers: Upgrading Their Own Line of Production

Many of the large producers either completely stopped or decreased the manufacturing of products under their own brand name after they started producing for multinational buyers and intermediaries[22]. They dedicated most of the resources in their firms to satisfy the needs of multinational buyers and intermediaries. However, as pointed

[22] The information in this section is based on interviews with firms F, G, A and I.

out earlier many producers are learning with experience of the potential risks involved in depending on multinational buyers and intermediaries and which the literature warns of.

The literature warns of several dangers, which are associated with links between multinational buyers and local producers (Harris-Pascal, 1998, 1996; Egan & Mody 1992). The main danger is that local producers would become dependent on multinational buyers. By becoming dependent on multinational buyers firms may face two risks, First, they may be substituted by other firms who are better able to meet the multinational buyers' requirements of quality, cost and timely delivery. Second, in case multinational buyers face downturns in their sales, then this will directly reflect in decreasing the volume of orders that multinational buyers are contracting to local producers.

As seen in section 3.1 in dealing with multinational buyers several of the entrepreneurs faced problems similar to the dangers that the literature warns of. Consequently, many entrepreneurs are re-launching the production of their own line of production. To achieve this they are depending on two sources of information: 1) the information that they acquired from multinational buyers in terms of meeting international standards of quality, cost and timely delivery to improve the production of their own line of production. 2) Through using the market channels that entrepreneurs are exposed to through their relationships with multinational buyers to find market niches.

For example Firm J started producing under a franchise agreement for Benetton since 1992. Prior to 1992, the entrepreneur was producing knitwear under his own brand name. However, after starting production for Benetton he stopped the production of his own line of production and focused most of his resources on producing for Benetton. During our interview, the entrepreneur explained that since last summer re-launched his own line of production while still dedicating the majority of resources in his firm to the franchise agreement with Benetton. While the sales of Benetton in Syria have continued to rise, the entrepreneur has become aware through his contacts with Benetton producers in other countries, particularly in Europe, that the sales of Benetton worldwide has been dropping down. The entrepreneur mainly attributed the decrease for the decrease in worldwide sales, to the fact that the particular 'Benetton Look' is no longer in fashion. Fearing that eventually, the worldwide decrease in sales would affect his production, the entrepreneur decided to re-launch his own line of production. The entrepreneur is upgrading the quality of his goods based on the new production techniques, such as new techniques in cutting and sewing and the new marketing information, such as labeling and packaging that he acquired through his relationship with Benetton.

Another entrepreneur wanted to sell women's blouses produced under his own brand name in France. While traveling to supply European buyers, he visited trade shows, and visited different wholesalers to learn about potential market niches and distribution channels. Through establishing these contacts, the supplier eventually entered international markets under his own brand name in 1997. He still produces for the European buyer. He said that about 70% of his production is for the European buyer while the other 30% is under his own name. The entrepreneur hopes that eventually he would only produce under his own name.

Conclusion

To sum up, I have identified two main factors that explain the rapid growth in the number of firms that are producing under franchising and subcontracting agreements. First, the state's policies prior to 1990 and which led to the emergence of large firms, producing a variety of products and had long years of experience, which attracted multinational buyers and intermediaries. Second, the transfer of information from multinational buyers and intermediaries to large firms, which enabled the firms to meet the multinational buyers standards of quality, price and timely delivery.

In the second part of this chapter, I will explain the factors that explain the diffusion of knowledge from large firms to other local producers in the garment industry. First, the type of agreement that a large firm was involved in and second, the Alawi-Sunni struggle existing in the Syrian society.

Part II: Diffusing Knowledge to Small and Medium Firms

3.5 Type of Agreement: Implications on Backward Linkages

Most of the entrepreneurs I interviewed rely on small and medium firms in the local industry mainly for the supply of raw materials, such as fabrics and accessories, and for fabric preparation operations, such as dyeing. A main reason for relying on locally produced raw materials is that large producers would be saving on cost and time involved in importing raw materials[23].

For example, due to the difference in the value of the exchange rate, locally produced raw materials are much cheaper than imported raw materials. For instance, ten meters of 100% European produced cotton fabric costs $100, while ten meters of locally produced cotton fabrics costs $35. Moreover, due to shipping, the time taken by raw materials to be delivered to the firms differs considerably depending on whether the raw materials are imported or locally produced. For example, locally produced fabrics tend to have a short delivery time between 1-25 days, while imported fabrics take between 25-125 days.

However, the type of agreement that an entrepreneur was involved in generally determined the extent to which the entrepreneur, in fulfilling an order, relied on small and medium producers in the local garment industry. Based on my interviews with large garment producers, firms producing under franchising agreements relied more heavily on medium and small firms for the supply of different raw materials, and for fabric preparation operations. As discussed earlier under franchising agreements, multinational buyers and intermediaries had lower quality standards than multinational buyers and intermediaries under subcontracting agreements. Consequently, entrepreneurs producing under franchising agreements could invest more time and resources in teaching the local suppliers how to better achieve higher quality goods.

For instance, the entrepreneur in Firm C was producing under a franchise agreement for the company 'Kickers'. He had initial problems with a small firm that was supplying him with dyed threads. While the quality of the supplied threads was

[23] Information in this section is based on interviews with firms A, B, I, J and K.

acceptable, the entrepreneur could not get his supplier to give him consistently threads of the exact same color. There were always color variations. Nevertheless, the entrepreneur was using the threads in delivering orders to the local stores. However, representatives of Kickers were urging the entrepreneur to have threads of a consistent color. After making the supplier repeat the dying operation several times without reaching consistency in colors, the entrepreneur contacted a technical consultant on dying that he had met through Kickers. The consultant, whose fee was jointly paid by the entrepreneur and his supplier, came to examine the supplier's dying process and made recommendations accordingly. The recommendations led to the dying result the entrepreneur had initially asked for.

In turn, several raw material suppliers have expanded their business to cater to the needs of the Syrian producers. For example, one entrepreneur has been performing fabric-dying operations for the past twenty-five years. However, in the early nineties, he decided to expand his factory and perform stone washing operations for Jeans fabrics. Through his conversations with entrepreneurs who were producing under franchise agreements, he learned about their need for local firms, which can provide them with Jeans fabrics. Through advertisements in magazines, the entrepreneur contacted a technical consultant based in Cyprus, who assisted the entrepreneur in buying new machines and in teaching the workers how to stone-wash jeans.

3.6 Alawi-Sunni Struggle: Intensifying Transfer of Infromation

Sunni Muslims owned most of the private firms in the garment industry[24]. Owners of all of the firms that I interviewed and which were producing for multinational buyers

[24] The information in this section is based on my interviews with the Head of the Chamber of Industry and with most of the firms that I interviewed in Damascus, Syria.

and intermediaries belonged to the Sunni sect, while the state and the ruling Socialist party were affiliated with the Alawi sect. Most of the owners were sons of entrepreneurs belonging to the Sunni industrial class whose firms were nationalized during the 1963 Socialist revolution. The Sunni entrepreneurs regarded their relationship with multinational buyers and intermediaries as an opportunity to revive their role as an industrial elite and gain access to decision making. They were mainly achieving this goal through using their exposure to multinational buyers and intermediaries as a means to strengthen their ties with the existing vibrant and diversified small and medium firm based garment industry. As a result, several of the large producers, whether producing under franchising or subcontracting agreements, dedicated time and resources in offering free services, such as free training courses on cutting and sewing, free machine maintenance to workers in small and firms in the garment industry. In return for free services, many of the owners of the large firms ran for seats in the Chamber of Industry and the Parliament based on the support of entrepreneurs in smaller firms.

For example, one of the industrialists, owner of Firm I, who is now a member of the parliament, has set up a free training school in his factory. The school primarily takes around thirty workers from other firms for a training period of around three months during which workers are trained on cutting and sewing techniques. In return for such, entrepreneurs, whose workers were trained at firm I voted for him in the latest parliamentary elections.

Another entrepreneur recently entered into the parliament based on his reputation as a 'good entrepreneur', for offering entrepreneurs different services, such as a free maintenance shop which offers other entrepreneurs various services, such as fixing broken machines and replacing old parts.

Conclusion

To sum up, I have identified two main factors, which explain the diffusion of knowledge from large producers to small and medium firms. First, the type of agreement that a firms is involved in, whether franchising or subcontracting. Firms producing under franchising agreements, and due to lower quality standards, relied more on local firms for the supply of raw materials and for fabric preparation operations. Second, the Alawi-Sunni struggle existing in the Syrian society. Many Sunni entrepreneurs producing for multinational buyers and intermediaries, whether under franchising or subcontracting agreements, offered free services to other small and medium sized Sunni owned firms in return for their support during election campaigns.

Chapter 4
Conclusion

Throughout the previous chapters, I set out to explain the success of the Syrian garment industry in exploiting the opportunity of the opening up of the economy in the early 1990s, and in transforming itself into a production base for various multinational buyers and intermediaries.

So, what are the lessons that we can extract from the experience of garment producers in Syria?

First, the large garment producers in Syria achieved rapid growth by building ties, on the one hand with global commodity chains and on the other hand, with diversified small and medium firms. Through their ties with global commodity chains, large garment produces upgraded their production capabilities by acquiring knowledge on international standards and tutelage on how to meet these standards. Moreover, the large garment producers diffused the knowledge that they acquired to the diversified small and medium garment firms. The ties built between the large producers and the small and medium firms were strengthened by their shared Sunni ethnicity. The Sunni owners of the large firms saw in diffusing information to other firms an opportunity to revive the Sunnis role as an industrial elite and gain access to political decision making at the national level.

Why is the fact that the large garment producers developed their capacities through building ties an important lesson to learn? For policy makers in developing countries it is important to realize the value of building ties with global commodity chains. Although as the literature warns that participating in global commodity chains carries potential dangers in that local producers become dependent on foreign buyers

(Harris-Pascal 1998), the case of Syria suggests that these dangers can be overcome. The large garment producers are using the knowledge that they are acquiring from global commodity chains to upgrade their own line of production and gradually decrease their dependency on foreign buyers. For many industrializing country firms tying into global commodity chains offers a relatively cheap, compared to hiring management consultants for example, and secure way of gaining access to information about developed country markets and production technology. A window of opportunity is being creating for many industrializing countries to participate in global commodity chains given the rising wage rates in newly industrializing countries, such as Hong Kong, South, Taiwan and Singapore, which is diminishing their role as an export base for global commodity chains (Egan & Mody, 1992).

Furthermore, the case of Syria suggests the need for policy makers to comprehend the political arrangements through which economic strategies play out in many developing countries. In planning the participation of local firms in global commodity chains for example, policy makers need to be aware that participating in global commodity chains is not an abstract model that has uniform implications across countries. Rather, the implications of participating in global commodity chains vary from one country to another, depending on conditions particular to each country. As the case of Syria shows, the shared ethnicity between large producers and small and medium producers strengthened their ties and intensifies the diffusion of knowledge from the large producers to the smaller ones.

The second lesson that the case of Syria suggests is that the firms leading Syria's participation in global commodity chains were large scale, employing more than 150 employees. As shown throughout the previous chapters, having a large scale was important from the buyers pout of view since a concentrated base of supply facilitated higher volumes of a consistent quality.

Why is learning that the firms leading Syria's participation in global commodity chains were large an important lesson to learn? For policy makers, planning a country's participation in global commodity chains, starting out by establishing ties between global commodity chains and large firms in the industry, as opposed to the small firms, might be an easier task to accomplish. Individual large firms, already constitute a concentrated supply base and usually have access to capital form their own resources on which they can depend upon in developing their production capacities to meet the requirements of Multinational buyers. As Syria is increasing becoming a sourcing base for global commodity chains more direct opportunities for small and medium firms to participate in global commodity chains is being created. During my fieldwork many entrepreneurs in small and medium firms explained to me that they are currently thinking of forming cooperatives to pool their resources together and participate in fulfilling an order for a multinational buyers.

Third, the literature on industrial development often dismisses the cases where the state follows an import substitution strategy as cases where industrial growth did not occur (Kruger 1986, Belassi 1982). The argument in the literature is that when the state takes measures such as imposing high tariffs and quotas in the import of foreign products, then local firms are deprived the opportunity to compete with foreign products. By not competing with foreign products local firms would have little incentive to upgrade the quality of their production. However, similar to other cases in the literature, the case of Syria shows other wise. The case shows that imposing high tariffs and quotas does not necessarily kill the competition in the local industry, but rather local competition can take a different form. In the case of Syria, after the imposition of tariffs, local competition in the industry was between public and private firms. The 'ethnic' and political struggles also intensified this competition between private firms, whose owners belonged to the Sunni sect, and the public firms associated with the ruling Alawi sect.

Understanding that protection measures do not necessarily deprive the local industry of competition is an important lesson since it makes us think differently about protectionism. The relationship between protectionism and lack of domestic competition is not a direct one. In some cases where the state did impose protection measures local firms were not able to develop their production capacity, while in other cases, as the case of Syria shows, local firms did develop their production capacity.

Finally, examining case of Syria may be a step towards understanding the relationship between political arrangements and their implications in industrial development. Industrial strategies may acquire contours quite different than envisioned by policy makers depending on the political arrangements of a particular country or region, thus, the case of Syria suggests a need for policy makers to comprehend these political arrangements through which economic strategies play out differently across developing countries.

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